Global Equity

EQUITIES	1 Mth (%)	3 Mth (%)	6 Mth (%)	YTD (%)	3 Yrs (%)
MSCI AC World	1.1	3.4	3.6	3.6	27.4
MSCI World	1.1	3.3	3.6	3.6	33.0
MSCI Emerging Markets	1.7	4.7	3.5	3.5	-6.9
MSCI USA	1.4	3.8	4.7	4.7	50.8
MSCI Canada	5.1	8.4	9.0	9.0	4.1
MSCI Europe	-0.9	1.0	2.1	2.1	18.9
MSCI Japan	4.6	5.6	-1.5	-1.5	19.0
MSCI Australia	-1.0	0.9	5.2	5.2	5.0
MSCI AC Asia Ex-Japan	1.3	5.3	3.8	3.8	3.8
MSCI Latin America	3.4	4.6	4.0	4.0	-23.3
MSCI EMEA	-0.1	2.7	0.1	0.1	-14.1

Returns in Singapore dollars. Source: Datastream, data as at 30 June 2014

In June, global equity markets rose by 1.1% (as measured by the MSCI AC World Index), led by the emerging markets (EM) which posted a gain of 1.7% for the period. The performance across the developed markets (DM) was more muted at 1.1%. The MSCI Japan Index led the regions with a gain of 4.6%, while the MSCI Europe Index lagged with a decline of 0.9%. Within the MSCI Emerging Markets Index, Latin America was the strongest market with an increase of 3.4% while EMEA lagged with a marginal drop of 0.1%. The MSCI AC Asia ex-Japan Index also saw an increase of 1.3%.

During the period, further strength in a number of key US economic data in June reaffirmed the view that the weakness in the first quarter of 2014 was mostly weather-related and growth should resume for the rest of the year. Global Purchasing Managers' Index (PMI) continued to improve and broaden out in the month with DM leading the global recovery. Technology rebounded strongly on positive earnings revisions while energy rallied on the back of increased geopolitical risks in Iraq. Consumer staples lagged the broad market as valuations remained rich while telecommunications remained an un-preferred sector given the challenging operating environment of declining margins juxtaposed against the increasing capital expenditure outlay.

Last month, the US equity market was modestly higher as the key economic readings continued to be strong. Leading indicators such as the PMI continued to extend strength at 55.3 from 55.4 in the previous month. The US labour market remained healthy with a lower unemployment rate of 6.1% and participation rate remained flat from the previous month. US equities were also boosted by comments from Federal Reserve (Fed) Chair Janet Yellen, who maintained her dovish monetary stance.

Global Equity

In Europe, the MSCI Europe Index declined as the economic momentum started to turn negative for the second consecutive month. The Eurozone composite PMI reading came in lower at 51.8 from 52.2 in May. Germany PMI was also weaker than expected at 52.0 while UK PMI remained strong at 57.5. The PMI reading for France was disappointing at 48.2 which extended the contraction that was seen in the previous month. The German IFO business confidence index declined slightly to 109.7 points from 110.4 points which was still elevated when compared against historical. Deflationary pressures in the currency bloc continued with the Eurozone consumer price index coming in at 0.5% which is unchanged from the previous month. The European Central Bank implemented measures to fight inflation by cutting the deposit and benchmark rates while introducing the targeted longer-term refinancing operations (TLTRO) to boost lending in the Eurozone.

The MSCI Japan Index was one of the best performers in the month as it gained 4.6% on the back of better than expected PMI readings. The PMI reading in June improved to 51.5 from 49.6 in May but evidence continued to point to slowing economic growth momentum with slower than expected retail sales. Expectation for additional easing measures by the Bank of Japan (BOJ) also receded as they are electing to wait for further data points before reviewing the need to act. We continue to hold the view that we need to see deeper reforms at both corporate and economy-wide levels before turning more constructive on the market.

The MSCI Emerging Market Index came in with a gain of 1.7% in the month, led by the MSCI Latin America Index which advanced 3.4%. An improving outlook on the US economy bodes well for global trade which supports the EM. Asian markets drew strength from the MSCI Thailand Index which rallied on improved sentiments with the military taking over the country. The MSCI EMEA Index lagged on the back of increased geopolitical risk in Iraq albeit offset by the improved situation in Ukraine/Russia. Meanwhile, growth within the other regions remained subpar, with the PMIs for the major countries still pointing to weakness. Brazil PMI continued to be weak extending its contraction with a reading of 48.7 which is lower than 48.8 in the previous month. China's official PMI on the other hand continued to stabilise at 51.0 which was marginally higher from 50.8 in May.

Outlook and Strategy

We continue to favour the developed equity markets to the emerging equity markets on steady improvement in the growth prospects for the advanced economies. Within DM, we are positive on the market prospects in the US, due to its improved labour market conditions and stable macro backdrop. In contrast, we are still concerned about the deflationary pressures in the Eurozone and the possibly slower growth momentum in Japan, after the increase in consumption tax. Therefore, the US equity market continues to be our preferred pick within DM.

In EM, we acknowledged that valuations are starting to look more attractive and there are already some good bottom-up investment opportunities. However, the aggregate market performance is likely to be lacklustre due to slower economic growth, tight liquidity conditions and potential headwinds for corporate earnings.

Overall, we see the tighter liquidity conditions, fiscal and monetary adjustments as key concerns in the EM. In this case, stock selection is starting to be paramount to drive investment outperformance which is positive for active managers. We continue to allocate capital to high-quality and sustainable growth companies that are reasonably priced. Our focus will be on companies with strong competitive advantages, healthy cash flow and proven track records.

Global Equity

Equities Asset Allocation

	–		N		+
DEVELOPED				■	
US					■
Europe			■		
Japan		■			
Canada			■		
Australia			■		
EMERGING		■			
Asia (ex Japan)			■		
LATAM		■			
EMEA		■			

Note: + = maximum overweight, N = neutral, - = maximum underweight

All statistics quoted in the write-up are sourced from Bloomberg as of 30 June 2014 unless otherwise stated.

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